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1994/08/00

EX-IM BANK PROGRAMS

Background

Ex-Im Bank is very active in providing financing support for the export of U.S. manufactured goods and services to the People's Republic of China (PRC). Ex-Im Bank is open in all short-term, medium-term and long-term insurance, loan and guarantee programs for China. Since the inception of Ex-Im Bank's programs in China in 1981, Ex-Im Bank has supported approximately \$2.5 billion in U.S. exports.

For the fiscal year 1993, China was the third largest market in Asia for Ex-Im Bank activity with loan, guarantee and insurance authorizations in support of U.S. exports of \$800 million. These commitments have provided financing support for transactions representing U.S. exports to various sectors including energy, steel, manufacturing, transportation and chemicals.

Transactions involving significant exposure require the direct obligation of the Bank of China, People's Construction Bank of China, or China International Trust and Investment Corp., with these institutions conveying the full faith and credit of the Government of China. Ex-Im Bank also has approved smaller transactions involving Shanghai International Trust and Investment Corporation and Guangdong International Trust and Investment Corporation. These latter two institutions are not backed by the Government of China and, therefore, Ex-Im Bank would limit its support to lesser amounts.

Ex-Im Bank's Environmental Standards and Programs

Ex-Im Bank's charter, revised in October 1992, requires the Bank to establish environmental review procedures, consistent with the Bank's overall export promotion objectives. The charter also authorizes the Board of Directors to grant or withhold financing support after taking into account the beneficial and adverse environmental effects of proposed transactions.

Ex-Im Bank will maintain U.S. exporters' competitiveness in the global marketplace while ensuring that the projects it supports are environmentally responsible. The Bank will decline to finance export transaction if the Board of Directors determines that this is appropriate in light of the project's serious adverse environmental impact.

Ex-Im Bank is in the process of adopting formal procedures for the review of the environmental effects of the projects it supports. The environmental review procedures are designed to be efficient and streamlined, and are tailored to the characteristics of different programs and projects. The guidelines Ex-Im Bank are adopting are envisioned to be modeled on World Bank guidelines as implemented by the IFC as of 1994.

Ex-Im Bank is committed to increasing the level of support it provides to exporters of environmentally beneficial goods and services as well as to exporters participating in foreign environmental projects. To achieve this objective, Ex-Im Bank has designed a special

"Environmental Exports Program" that will provide enhanced levels of support for a broad range of environmental exports. The program demonstrates Ex-Im Bank's resolve to reach out to small and large exporters of environmental products and services. The major features of the program are:

- A short term Environmental Export Insurance Policy will provide enhanced short-term, multi-buyer and single-buyer insurance coverage for small business environmental exporters. Features of the program include policies which deliver 95% commercial coverage and 100% political coverage with no deductible.
- Enhanced medium and long term support for environmental projects, products and services. These enhancements, which are reflected in Ex-Im Bank loan and guarantee programs, include:
 - Local cost coverage equal to 15% of the U.S. contract price
 - Capitalization of interest during construction
 - Maximum allowable repayment terms permissible under OECD guidelines

These features are intended to substantially improve the competitive position of U.S. environmental exporters. In addition, Ex-Im Bank will aggressively use its tied aid resources to off-set foreign concessionary financing offers for environmental projects.

Environmental Activity in China

The Asia/Middle East Division has taken a proactive position with regard to supporting environmental projects in China. We have sent cables to the American Embassy querying as to potential environmental projects that Ex-Im Bank could support if U.S. exporters are involved, letters to the Asian Development Bank advising of Ex-Im Bank's strong interest in financing environmental projects and our desire to establish a dialogue with the Asian Development Bank on environmental projects in China, as well as site visits to U.S. companies interested in environmental export sales to China.

The American Embassy in Beijing has reported that the central government of the PRC has three areas of emphasis regarding environment: (i) municipal water treatment; (ii) solid waste management, and (iii) the application of clean coal technologies (including some of the more conventional devices such as scrubbers). However, the PRC Government is generally not willing to commit official foreign currency reserves to the environmental sector, financing for these large-scale projects is primarily coming from the World Bank, the Asian Development Bank, Japan's Overseas Economic Cooperation Fund (OECF), the Global Environmental Facility of the World Bank and bilateral government soft loans which are primarily from European countries.

EX-IM BANK PROGRAMS

Talking Points

- The Ex-Im Bank's program of loans, guarantees and insurance have been open to China uninterrupted since 1981. Ex-Im Bank is the U.S. Government's most active financing program for China (TDA, OPIC and AID closed).
- Most recently Ex-Im Bank has begun to accept application requests for limited recourse project finance and has established a Project Finance Division (financing not supported by government guarantees). Under the direction of Chairman Brody, Ex-Im Bank is reorganizing to meet the reality and challenges of a changing world.
- Since 1981, we have supported over \$2.5 billion of U.S. exports. Current actual exposure is \$2.0 billion.
- In 1993 we supported almost \$800 million of U.S. exports to China, our highest level ever, with aircraft exports at \$500 million and \$300 million in general industrial projects. For 1994 to date we have supported \$605 million (vs. \$439 million for year to date 1993), so we are on a pace of almost 40% above YTD 1993.
- Currently (as of 6/30/94) in-house applications total \$3.3 billion for major export opportunities.
- For the future, electric power plants (particularly project risk transactions, see project risk briefing paper) and transportation projects (including aircraft) are expected to be the major areas of support.
- Regarding the structure, transactions involving significant Ex-Im Bank exposure require the direct obligation of the Bank of China, People's Construction Bank of China (PCBC) or China International Trust and Investment Corporation (CITIC). These institutions convey the full faith and credit of the Government of China.
- Ex-Im Bank has also approved smaller transactions involving Shanghai International Trust and Investment Corporation (SITICO), and Guangdong International Trust and Investment Corporation (GITIC). These latter two institutions are not backed by the Government of China and therefore Ex-Im Bank would limit its support to a lesser amount.
- In closing, Ex-Im Bank is now aggressively employing its Tied Aid Capital Projects Fund to counter trade-distorting foreign tied aid credits (please see briefing paper on concessionary financing).

CONCESSIONARY FINANCING

Issue

Foreign Tied Aid Use is Still a Major Competitive Problem Confronting U.S. Exporters. In calendar year 1993, the total volume of tied aid credit offers notified by OECD governments was about \$6.9 billion. This represents a sharp drop from \$15.5 billion in offers recorded in 1992, which was the transitional year for the implementation of the latest OECD Arrangement tied aid rules.

However, \$6.9 billion is still a large number. Moreover, OECD governments notified another \$3.1 billion in tied aid offers during the first four months of calendar 1994. This figure might indicate a rebound in tied aid offers during the first four months of calendar 1994.

Background

Ex-Im Bank is a central participant in a two-pronged U.S. strategy which aims to reduce foreign tied aid use. One prong of the U.S. government's strategy is the reinforcement of OECD Arrangement's tied aid rules and disciplines. The U.S. Government has engaged in negotiations, within an OECD Framework, to limit the use of tied aid credits by member countries. These negotiations have established notification and consultation procedures which seek to improve the transparency of foreign aid offers. They have imposed a minimum concessionality level on tied aid credits, thus increasing somewhat their budgetary cost to donor governments. They have also prohibited tied aid for certain groups of recipient countries (namely, upper middle-income developing countries), and for "commercially viable" projects.

Nevertheless, in spite of successive OECD Arrangements, there is no question that large volumes of tied aid credits are still permitted under international rules. These tied aid credits can finance exports to "commercially non-viable" projects in many middle- or lower-income developing countries.

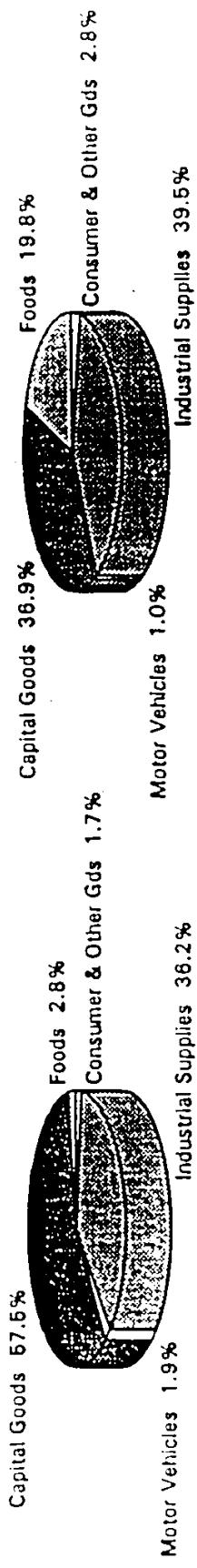
To address this tied aid scenario, President Clinton announced in his September 1993 National Export Strategy that there would be a fundamental shift in the the U.S. government's approach to tied aid. Previously, Ex-Im Bank would only use tied aid to police OECD tied aid violations - - now, as a result of the new Ex-Im Bank's Tied Aid Capital Projects Fund, the second prong of the U.S. strategy - Ex-Im Bank will aggressively employ tied aid to counter trade-distorting foreign tied aid credits, in addition to the earlier policing function. The objective is to "level the playing field" for U.S. exporters, while frustrating foreign governments' attempts to buy market share through such practices.

CONCESSIONARY FINANCING

Talking Points

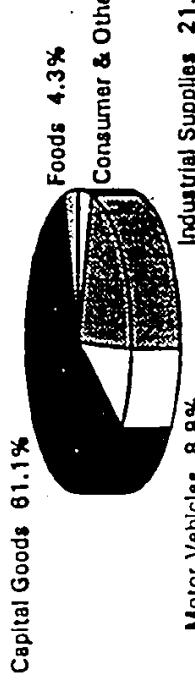
- Foreign tied aid use is still a major competitive problem confronting U.S. exporters.
- In order to counter such trade distorting practices, Ex-Im Bank will aggressively employ the tied Aid Capital Projects Fund.
- Each Ex-Im Bank use of the Tied Aid Capital Projects Fund will defend potential U.S. sales to a project which is developmentally and environmentally sound.
- Each Ex-Im Bank tied aid will preemptively counter potential foreign tied aid offers without triggering foreign tied aid use.

Commodity Composition of U.S. Exports To China



1985
\$3.9 Billion

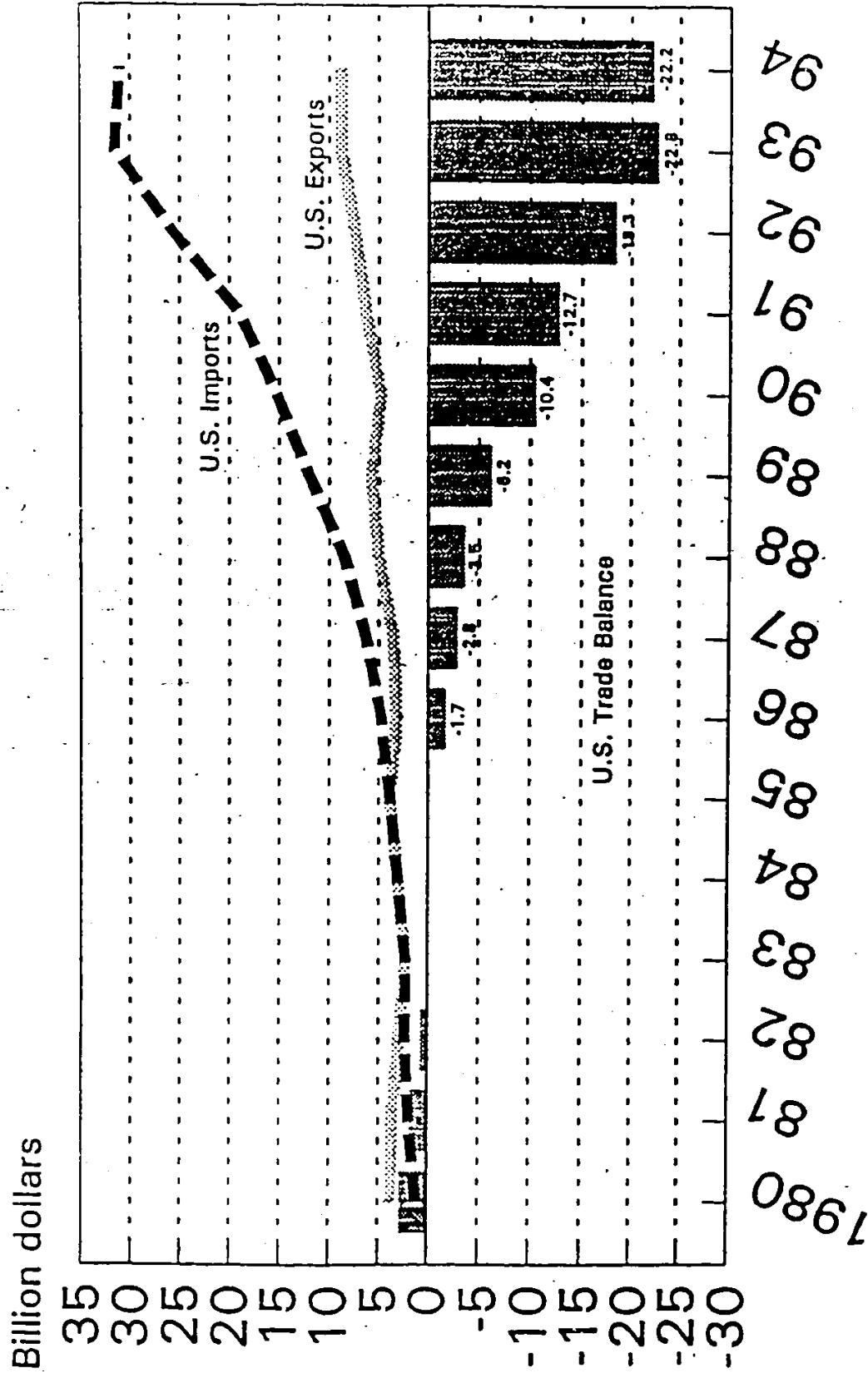
1989
\$5.8 Billion



1993
\$8.8 Billion

Source: U.S. Dept. of Commerce

U.S. Trade with China 1980-1994



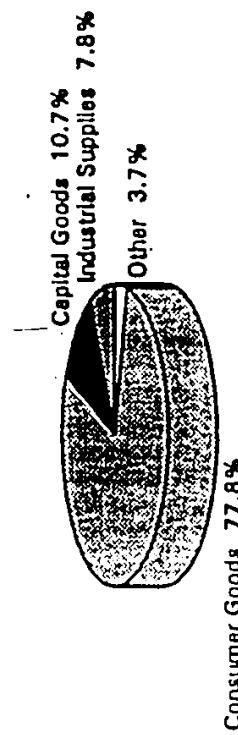
Source: U.S. Department of Commerce.
1994 - Jan-May at annual rate

Commodity Composition of U.S. Imports From China



1985
\$3.9 Billion

1989
\$12.0 Billion

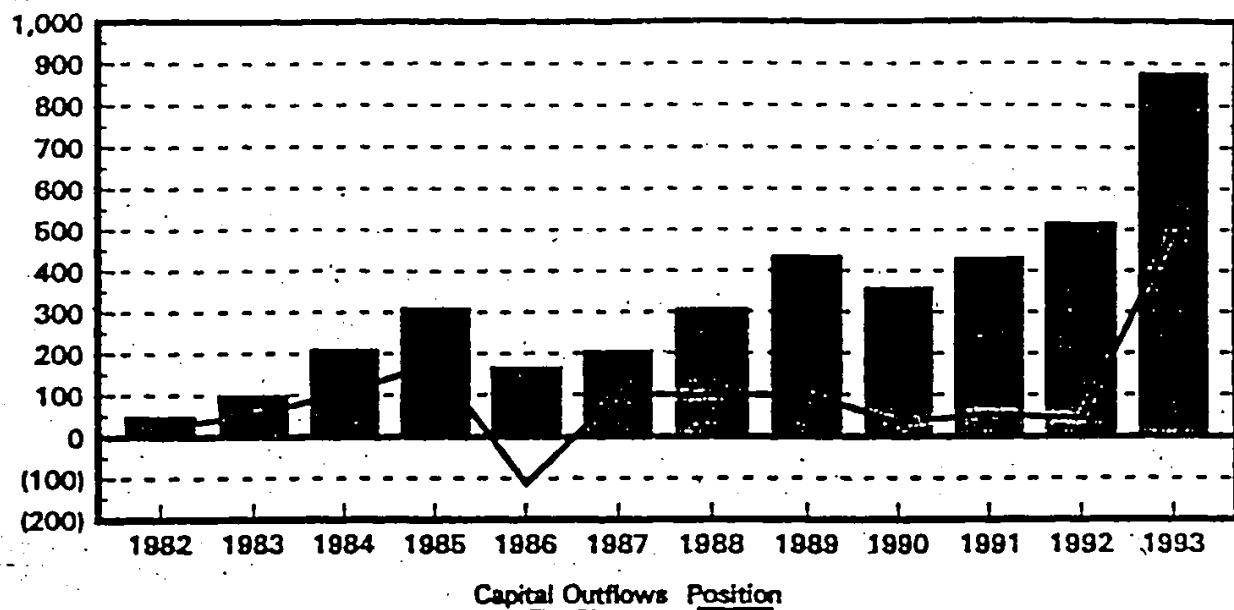


1993
\$31.5 Billion

Source: U.S. Dept. of Commerce

U.S. Direct Investment in China

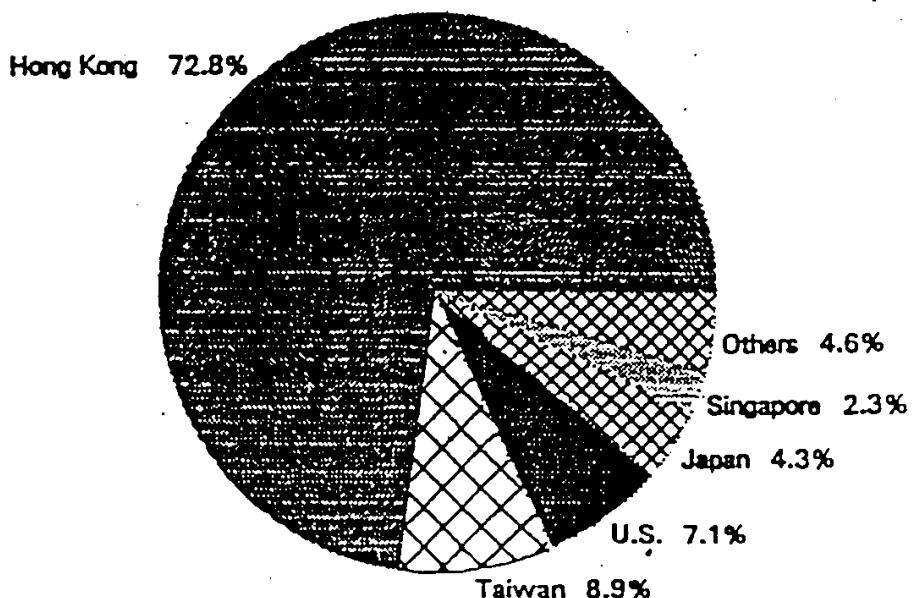
Millions of Dollars



Note: A negative capital outflow is disinvestment or a capital inflow back to the United States.
Source: U.S. Department of Commerce.

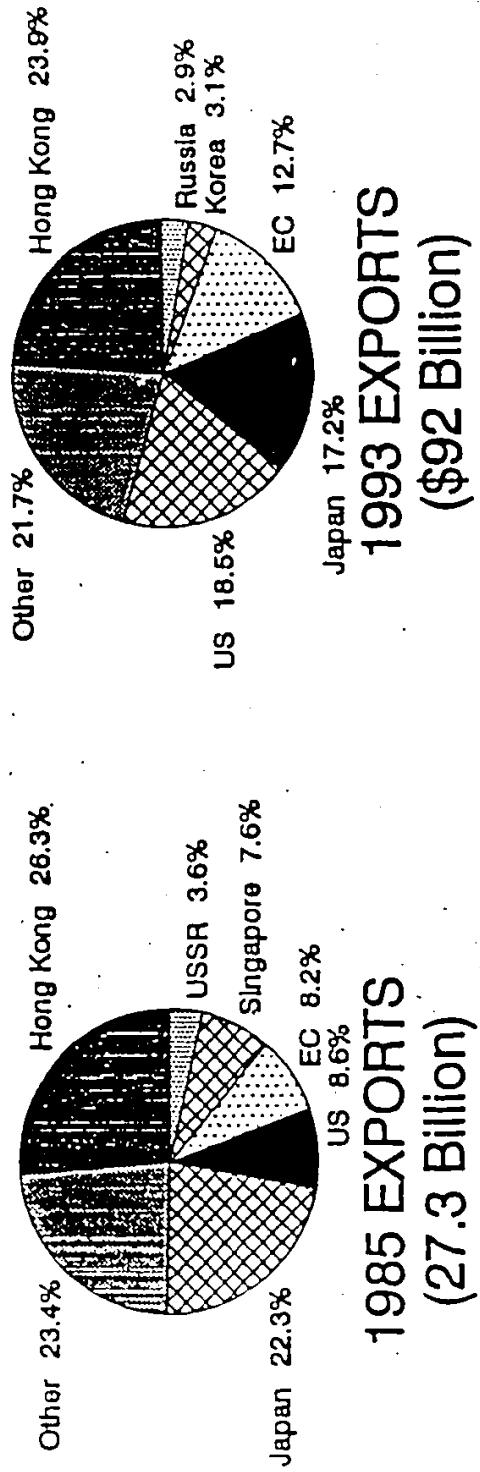
Share of Cumulative Direct Investment into China Contracted Between 1980 and 1993, By Country

(Total Amount Contracted: \$207.3 Billion)

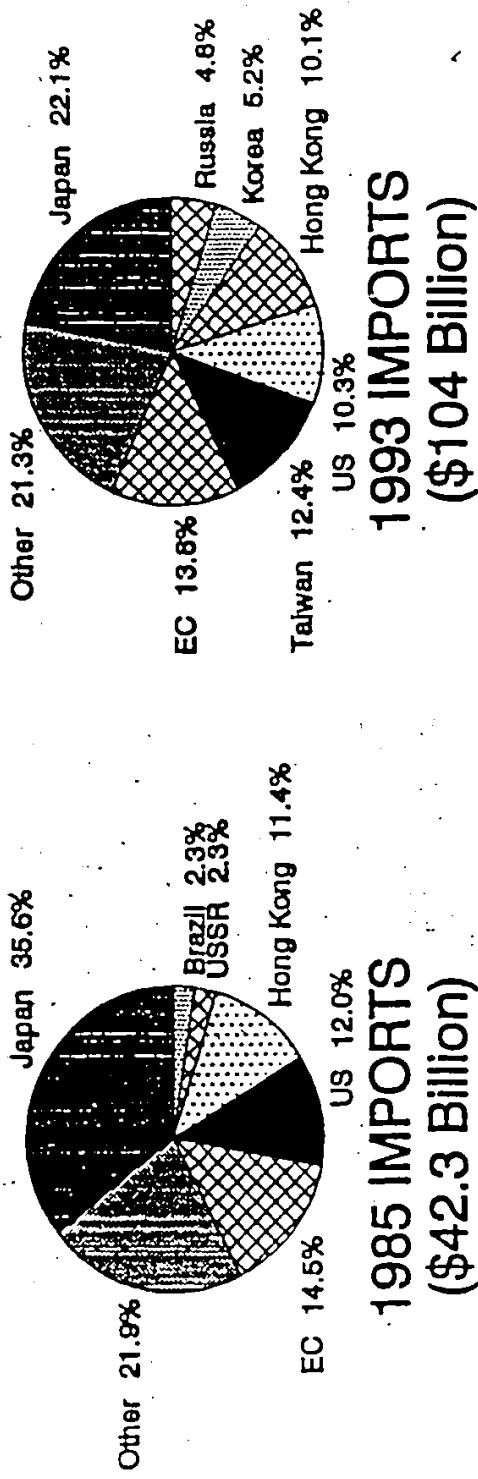


Source: MOFTEC, Peoples Republic of China

CHINA'S MAJOR MARKETS



CHINA'S MAJOR SUPPLIERS

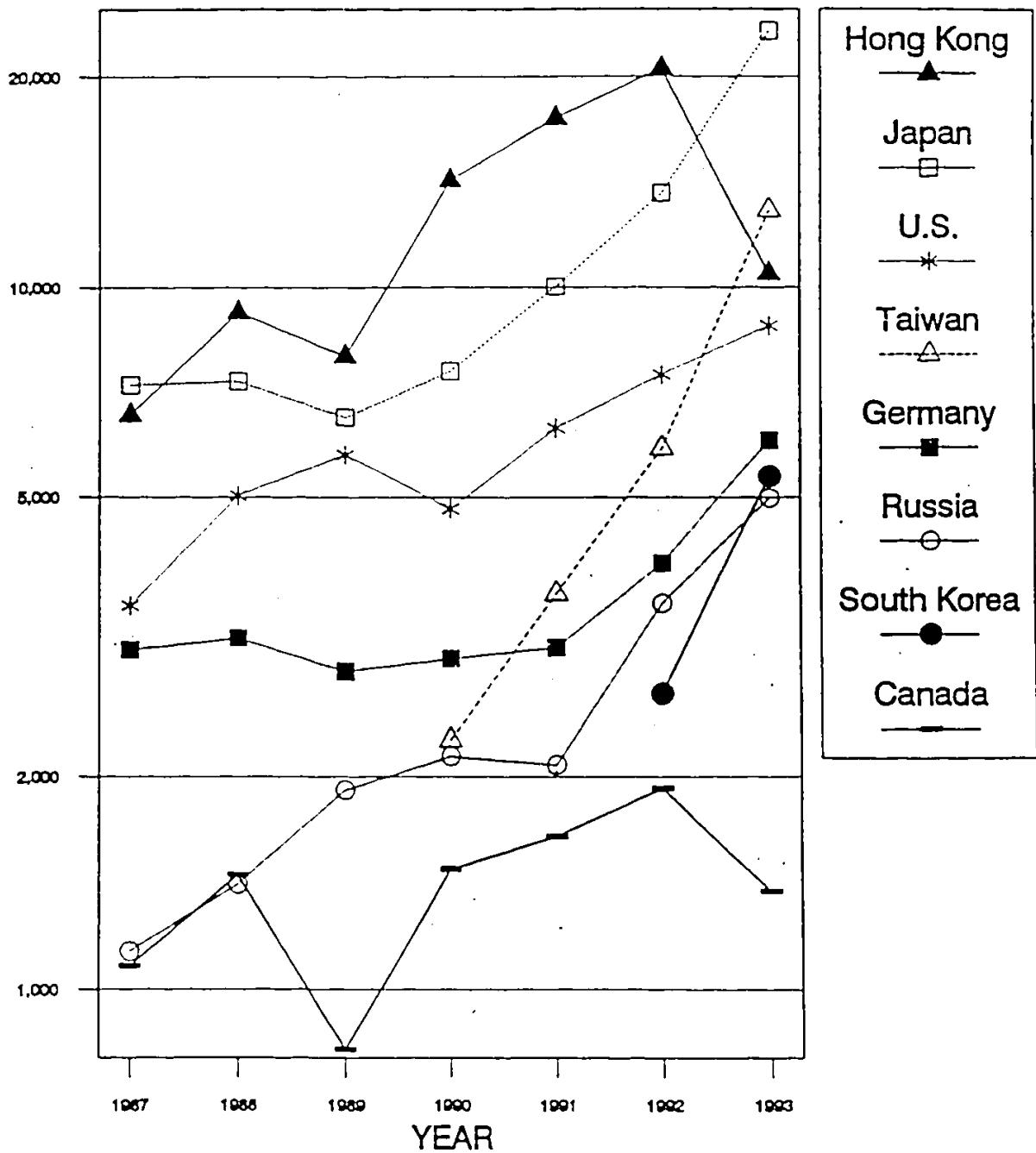


Source: China's Custom Statistics. Note: Trade among China, Hong Kong and Taiwan may include goods for reexport. Substituting U.S. data for U.S.-China trade, the U.S. market absorbed 14.1% of China's exports in 1985 and 34.2% in 1993. Similarly, the United States supplied 9.1% of China's imports in 1985 and 8.5% in 1993.

TOP EXPORTERS TO CHINA 1987-1993

ASIAN COUNTRIES STEP UP THEIR PRESENCE IN CHINA

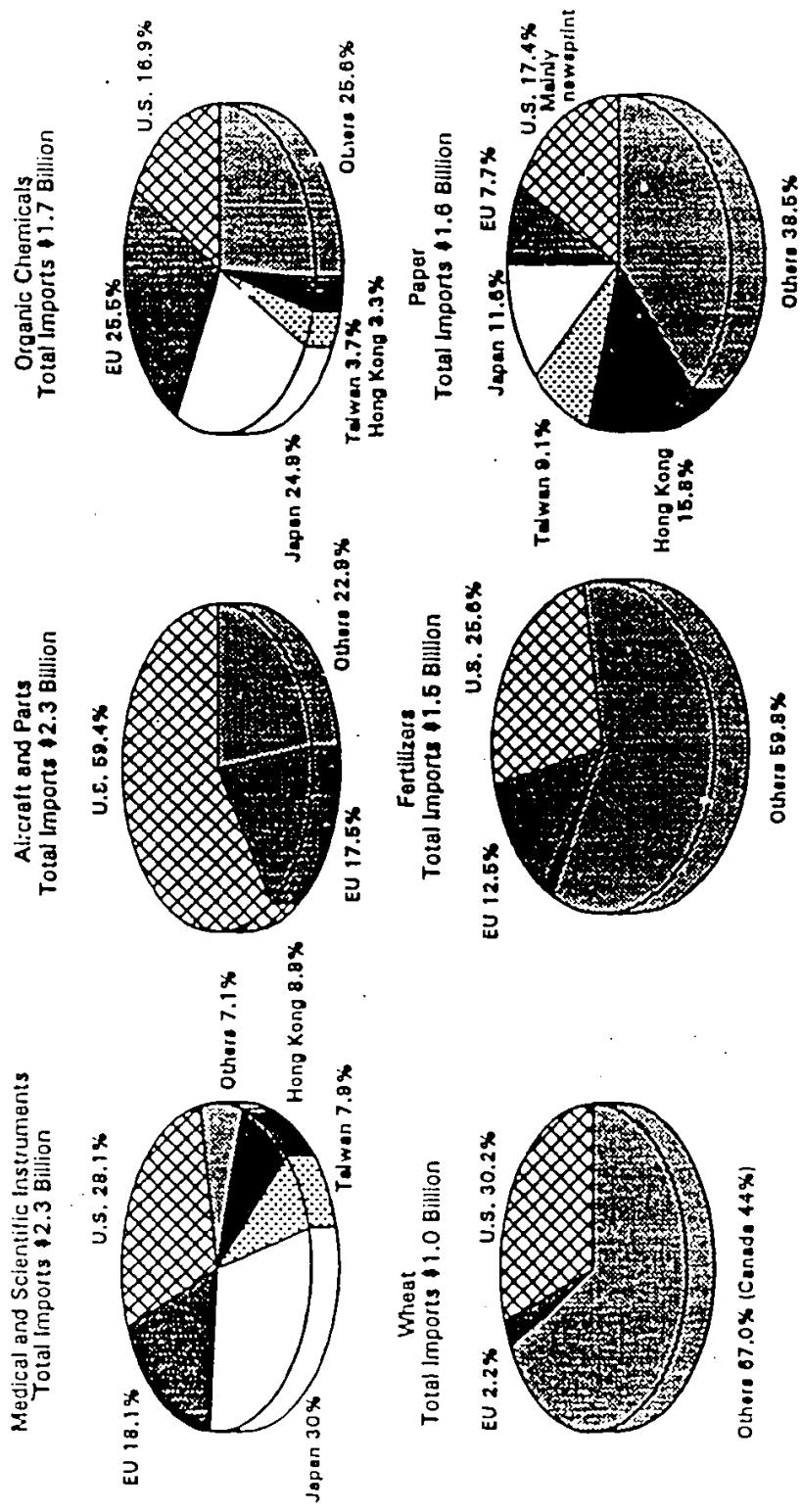
Annual Exports (\$US Millions)



Source: Ministry of Foreign Economic Relations and Trade. Except for U.S. Exports. German Data includes DRG and FRG. Official Statistics for Taiwan and South Korea not available prior to 1990 and 1992, respectively.

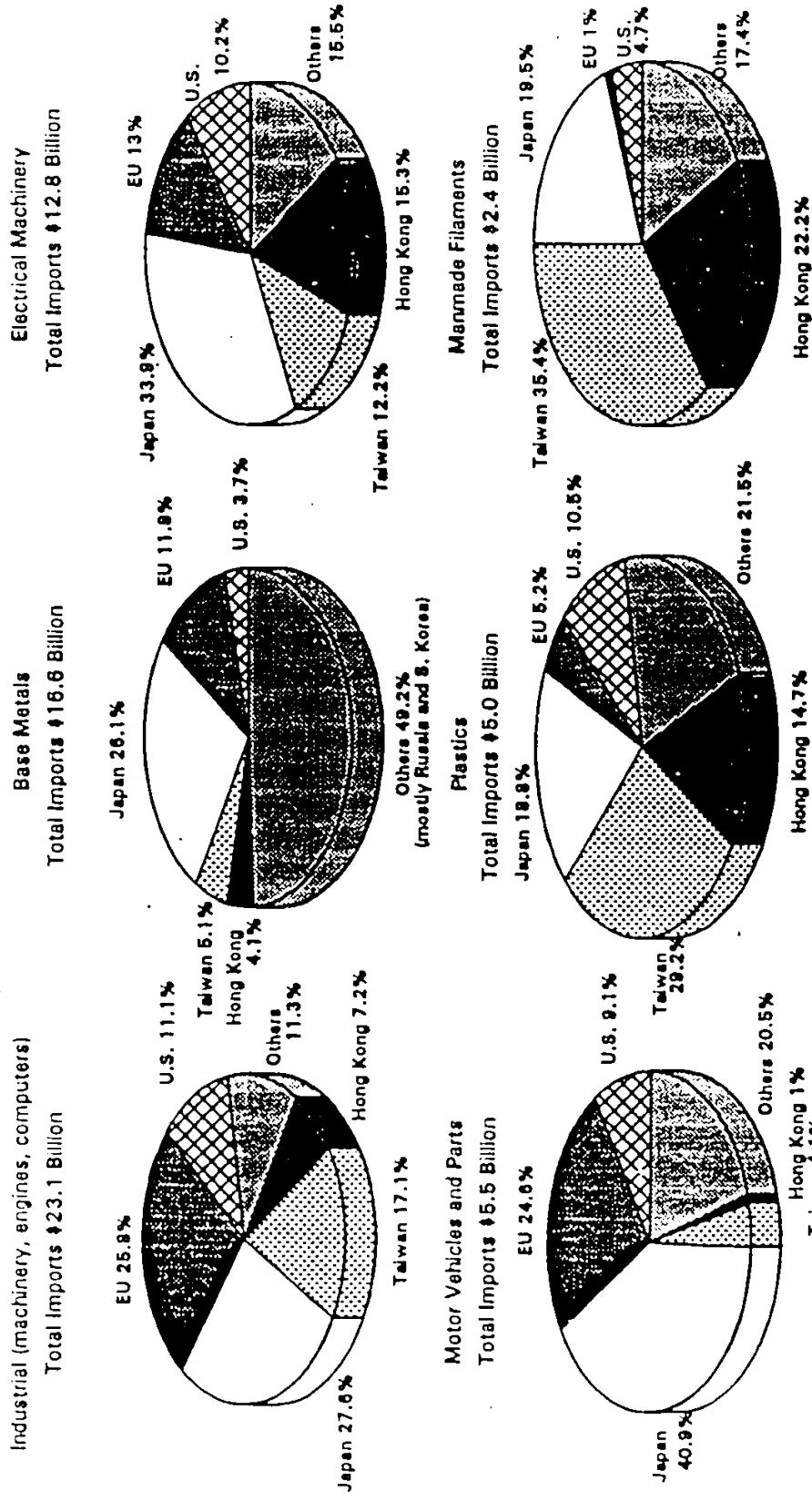
1993 Share of China's Import Market

Major Markets Where U.S. Exporters Have Largest Share



Source: Based on Chinese Import Data, and OTEATA

1993 Share of China's Import Market Largest Import Markets Where U.S. Does Not Have Major Share



Source: Based on Chinese Import Data, and OTEATA